

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Schools and Libraries Universal Service)	CC Docket No. 02-6
Support Mechanism)	

VERIZON¹ PETITION FOR CLARIFICATION

Introduction

In the Second Report and Order,² the Commission adopted a rule requiring service providers to provide applicants with the right to choose discounted billing as a payment option. Second Report and Order, ¶¶ 44-51. The Commission should clarify that a service provider is not required to offer discounted service until after the applicant has filed a properly completed Form 486, which is a prerequisite to the service provider receiving payment, and the provider receives notification from the Schools & Libraries Division (“SLD”) to begin billing the discount. Such a rule guarantees that providers do not have to provide discounts before they are approved, and also creates the proper incentives for applicants to timely file the forms necessary for such approval with the Universal Service Administrative Coordinator (“USAC”).

¹ The Verizon telephone companies (“Verizon”) are the local exchange carriers affiliated with Verizon Communications Inc., and are listed in Attachment A.

² See *Schools and Libraries Universal Service Support Mechanism*, Second Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202 (2003) (“Second Report and Order”).

Argument

I. The Commission Should Clarify That Service Providers Are Not Required To Discount Bills Until The Form 486 Has Been Filed And Approved by SLD

Under a discounted billing system, applicants “pay the non-discounted portion of the cost of services, with the service provider seeking reimbursement from the Administrator for the discounted portion.” *Id.*, ¶ 42. Of course, any “discount” that the service provider applies to the applicant’s bills cannot be recouped unless it is approved by USAC. Recognizing this, the Commission properly reasoned that “service providers are under no obligation to provide discounts or reimbursements until a funding decision is approved, and we therefore find that it would be inappropriate to require providers to offer discounted service before any funding decision is made to authorize such discounts.” *Id.*, ¶ 49. However, other than stating that the discount does not have to be applied “before any funding decision is made,” the Order is silent on when the discounted billing should begin. *See id.* The Commission should clarify that service providers have no obligation to apply discounted billing until the applicant files the Form 486, which is necessary for USAC to approve the discount, and discounted billing has been approved.

Currently, E-rate funds are not paid directly to the applicants, but are paid to the service provider, which then uses them to offer discounted services. There are two potential methods of payment: (1) the applicant pays the service provider the full cost of services, then receives the discounted portion after the provider receives E-rate funds from USAC through the Billed Entity Application for Reimbursement (“BEAR”) process; or (2) the applicant pays only the non-discounted portion of the services, and the provider seeks reimbursement from USAC from the remaining portion. *See Second Report and Order*, ¶ 42. Before the Second Report and Order, service providers and

applicants worked together to determine which method of payment would be used.³ The Second Report and Order requires service providers, as of Funding Year 2004, to give applicants the choice of billing methods. *See* Second Report and Order, ¶¶ 44, 50.

Under current USAC rules, even after the funding decision is approved, the service provider cannot be reimbursed for discounts provided to schools and libraries unless and until the applicant files a properly completed Form 486, Receipt of Service Confirmation Form. As explained by the USAC website,

The FCC Form 486, Receipt of Service Confirmation Form, is sent to the SLD by the billed entity applicant to indicate that it (or the eligible entities it represents) is receiving or has received service from the service provider(s) with which it contracted for E-rate eligible services. *When the SLD receives a properly completed Form 486, that event triggers the process for the actual payment of discounts to the service providers.*⁴

For that reason, USAC's procedures contemplate that applicants will not receive discounted billing until *after* a properly completed Form 486 has been filed with USAC. For example, the USAC website states, "Once the SLD receives your Form 486 identifying the actual Service Start Date, your service provider is notified by the SLD to begin billing the discount."⁵ In addition, it states that filing the Form 486 "triggers the actual payment of discounts to service providers (and the service providers *then* reflect

³ *See Schools and Libraries Universal Service Support Mechanism*, Notice of Proposed Rulemaking and Order, 17 FCC Rcd 1914, ¶ 33 (2002).

⁴ *See* USAC: Schools & Libraries, How to Apply: Step-by-Step, Form 486 Filing Guidance, *available at* <http://www.sl.universalservice.org/reference/8form486.asp>.

⁵ *See* USAC: Schools & Libraries, Reference Area, Discounts on Bills, *available at* <http://www.sl.universalservice.org/reference/discountsy4.asp>.

this discount on your bills or reimburse you for discounted amounts you have already paid in full).”⁶

Similarly, USAC instructs service providers not to invoice SLD for reimbursement for discounted services until *after* the service provider has received notification from SLD that the Form 486 has been filed by the applicant.⁷ In Verizon’s experience, if a provider invoices SLD for reimbursement and the applicant has not filed the Form 486, SLD will not pay the invoice.

Thus, USAC advises applicants to promptly file the Form 486 in order to receive discounted billing. The current procedures state that applicants “should file a Form 486 within 10 days after services have started.”⁸ USAC also gives applicants the ability to file the Form 486 earlier if they have received a Funding Commitment Decision Letter and “confirmed with their service providers that services will start in July of the funding year.” *Id.*

Because service providers cannot receive universal service funding until the applicant files a properly completed Form 486, the Commission should clarify that service providers are not required to provide discounted billing unless and until the SLD has notified the provider that the applicant has filed a properly completed Form 486. Such a clarification will ensure that service providers are not forced to provide discounts

⁶ USAC: Schools & Libraries, How to Apply: Step-by-Step, Form 486 Filing Guidance, *available at* <http://www.sl.universalservice.org/reference/8form486.asp> (emphasis added).

⁷ See FCC Form 474, Universal Service for Schools and Libraries, Service Provider Invoice Form, Instructions, at 3, *available at* <http://www.sl.universalservice.org/form/>.

⁸ USAC: Schools & Libraries, How to Apply: Step-by-Step, Form 486 Filing Guidance, *available at* <http://www.sl.universalservice.org/reference/8form486.asp>.

that are not approved by USAC. In addition, by tying discounted billing to the Form 486, such a clarification will provide the proper incentives for applicants to timely file the form required by USAC in order to approve the discount.

Consistent with current USAC procedures, if the applicant fails to timely file a properly completed Form 486, the service provider should be permitted to bill the applicant for the full (non-discounted) amount of services provided. If the applicant files the Form 486 after paying the full (non-discounted) bills, it would still have the option to choose whether to use the BEAR or discounted billing option. If discounted billing is chosen, it can recover the discounts from prior (non-discounted) services through discounts on bills for future services or other refunds from the service provider designed to “true up” any bills paid before the discounted billing began.⁹

⁹ The Commission has already noted that true-up billing may be appropriate in the discount process. *See generally* Second Report and Order, ¶ 50 (noting that in some situations, “the parties may find it more appropriate to negotiate a set disclosed amount to be billed each month, with a true-up bill at the end of the contract.”)

Conclusion

The Commission should clarify that the Second Report and Order's provisions for applicant choice do not override current USAC procedures, which provide that service providers are not obligated to provide discounted billing until they receive notification from the SLD that the applicant has filed a properly completed Form 486.

Respectfully submitted,



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THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.